

## Message Text

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ACTION ARA-10

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C O N F I D E N T I A L CARACAS 9487

E.O. 11652: N/A

TAGS: ENRG, EINV, VE

SUBJECT: GOV TAX CLAIM AGAINST EL PASO-VENEZUELA OIL CO.

1. BEGIN SUMMARY. THE VENEZUELAN MINES MINISTRY HAS INFORMALLY ADVISED THE EMBASSY OF A TAX CLAIM IT HAS AGAINST EL-PASO-VENEZUELA OIL CO. THIS COMPANY (NOT TO BE CONFUSED WITH EL PASO NATURAL GAS CO.) IS REPORTEDLY OWNED BY JAMES E. BRANDON OF AMARILLO, TEXAS. IT OWNS A MINORITY PERCENTAGE OF 3 PHILLIPS PETROLEUM CO. CONCESSION LOTS, PLUS AN OVER-RIDING ROYALTY INTEREST IN CERTAIN MENE GRANDE CONCESSIONS. THE GOV HAS TAX CLAIMS TOTALING OVE BS 17 MILLION AGAINST EL PASO VENEZUELA OIL CO. AND IS STUDYING HOW TO PROCEED TO COLLECT PAYMENT. END SUMMARY.

2. ON SEP 5, THE EMBASSY PETROLEUM ATTACHE WAS ASKED TO COME TO THE MINISTRY OF MINES AND HYDROCARBONS FOR A MEETING WITH AREVALO G. REYES, DIRECTOR OF HYDROCARBONS. ALSO PRESENT AT THE MEETING WAS ORTIL HORTON, THE LOCAL MANAGER OF PHILLIPS PETROLEUM CO. REYES BEGAN BY SAYING HE HAD CALLED THE MEETING TO INFORMALLY DISCUSS HOW THE MINISTRY COULD COLLECT A TAX DEBT FROM THE FIRM EL PASO-VENEZUELA OIL CO. REYES DESCRIBED THE DEBT AS BEING OWED ON OIL PRODUCED AND SOLD FOR THE ACCOUNT OF EL PASO-VENEZUELA. THE TAX CLAIM TOTALS BS 17,686,874.81. IT INCLUDES CURRENT TAX BILLS FOR 1974 AND 1975, PLUS CONTESTED TAX BILLS FOR SHIPMENTS DURING 1971, 72, AND 73.

3. MR. HORTON STATED THAT EL PASO-VENEZUELA OIL CO. IS OWNED BY JAMES E BRANDON, P.O. BOX 10251, 1709 AVONDALE, AMARILLO, TEXAS

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79106. PH: 806-352-2762. HORTON SAID THAT PHILLIPS PETROLEUM CO.

ORIGINALLY ACQUIRED CONCESSION LOTS 10 AND 17 IN LAKE MARACAIBO AND BLOCK 9 IN MONAGAS STATE, AND THEN SOLD PARTICIPATION IN THE CONCESSIONS TO A GROUP OF OTHER COMPANIES IN THE TRADITIONAL PATTERN OF SHARING RISKS. AMONG THE COMAPNIES ACQUIRING PARTICIPATION WAS THE EL PASO-VENEZUELA OIL CO., WHICH WAS AND STILL IS LEGALLY INSCRIBED IN VENEZUELA. EL PASO-VENEZUELA OIL CO. OWNS 13 PERCENT OF LOT 10 AND 3.2374 PERCENT OF LOTS 17 AND 9. APPARENTLY, THE U.S. OWNERS OF EL-PASO-VENEZUELA HAVE CHANGED ON SEVERAL OCCASIONS. KIRBY ROYALTIES AND PETRO-DYNAMICS WERE MENTIONED AS OWNERS OF RECORD AT VARIOUS TIMES, WITH JAMES E. BRANDON NAMED AS THE PRESENT OWNER. FROM COMMENTS MADE BY HORTON AND THE LOCAL MENE GRANDE MGR, BRANDON MAY HAVE BEEN OR STILL IS CONNECTED WITH BOTH KIRBY ROYALTIES AND PETRO-DYNAMICS.

4. HORTON SAID THAT PHILLIPS PETROLEUM OPERATES THE CONCESSIONS, MARKETS THE OIL, AND THEN PAYS THE PARTICIPATING COMPANIES THEIR PERCENTAGE SHARE OF THE PROCEEDS. EACH PARTICIPATING CO MAINTAINS ITS OWN CORPORATE ACCOUNTS AND IS INDIVIDUALLY LIABLE FOR ITS OWN TAX OBLIGATIONS TO THE GOV. PHILLIPS PETROLEUM APPARENTLY CHARGES AN OPERATING FEE. HORTON NOTED THAT OIL FROM THESE CONCESSIONS IS SOLD AT A LOSS BECAUSE GOV TAX REFERENCE VALUES ON THE QUALITY OF OIL PRODUCED RESULT IN A DELIVERED COST HIGHER THAN THE PRESENT MARKET PRICE. HE REMINDED REYES THAT PHILLIPS HAS AN APPLICATION PENDING FOR TAX RELIEF ON THIS OIL. HE FURTHER NOTED THAT, AS OF JUL 31, 1975, EL PASO-VENEZUELA OWED PHILLIPS PETROLEUM \$154,000 WHICH PHILLIPS WAS COLLECTING BY DEDUCTING OIL ON A MONTHLY BASIS FROM THE DEBTOR'S ACCOUNT.

5. REYES EXPLAINED THAT HE HAD INVITED THE PETROLEUM ATTACHE TO THE MEETING FOR ANY SUGGESTIONS ON HOW TO RESOLVE THE MATTER. HE EXPLAINED THAT EL-PASO-VENEZUELA HAS NO REPRESENTATION NOW IN VENEZUELA. THE LAW FIRM REPRESENTING THE LEGAL INTERESTS OF EL PASO-VENEZUELA RENOUNCED ITS REPRESENTATION SOME TIME AGO. ACCORDING TO A REPORT PREPARED BY THE MIN OF FINANCE EL PASO-VENEZUELA HAD ASSETS IN VENEZUELA AS OF DEC 31, 1974 TALLING BS 2,506,847. 57. THIS CONSISTED OF PROPERTY AND MATERIAL INVENTORY VALUED AT BS 1,933,122.00 AND BONDS, STOCK AND DEPOSITS IN THE GUARANTY FUND VALUED AT BS 573,752.57.

6. INCLUDED IN THE FINANCE MIN REPORT IS A NOTE THAT EL PASO-  
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VENEZUELA HAS A CONTRACT IN VENEZUELA PERMITTING IT A 20 PERCENT PARTICIPATION IN THE EARNINGS OR LOSSES OF A COMPANY NAMED "HATO LA VERGARENA C.A.". THIS LATTER COMPANY IS BELIEVED TO BE THE D.K. LUDWIG CATTLE RANCH SOUTH OF CIUDAD BOLIVAR. THE REPORT NOTES THAT THE EL PASO-VENEZUELA "RIGHTS" IN THE RANCH COULD POSSIBLY BE SUBJECT TO EMBARGO, BUT THAT THE VALUE OF THESE "RIGHTS" CANNOT BE DETERMINED SINCE THEY APPLY ONLY TO POSSIBLE EARNINGS IN FUTURE.

7. ASKED HOW THE GOV HAD ALLOWED EL PASO-VENEZUELA TO ACCUMULATE THE TAX DEBT, REYES REPLIED THAT HE HAD JUST BEEN HANDED THE TASK OF RESEARCHING THIS CASE AS WELL AS A SERIES OF OTHERS INVOLVING COMPANIES THAT OWN PARTICIPATION IN THE MAJOR CONCESSIONS. THE EL PASO-VENEZUELA TAX OBLIGATION APPEARS TO BE THE LARGEST. NO OTHER SPECIFIC CASES WERE CITED AT THE MEETING. REYES IMPLIED THAT THE FINANCE MIN WAS A FAULT IN NOT COLLECTING THE TAX.

8. AT A FOLLOWING MEETING WITHOUT REYES, ORVIL HORTON TOLD THE PETROLEUM ATTACHE THAT HE HAD BROUGHT THE EL PASO-VENEZUELA CASE TO THE ATTENTION OF REYES IN ORDER TO AVOID ANY STIGMA OF BLAME FOR HIS COMPANY WHEN THE PROBLEM EVENTUALLY WAS DISCOVERED BY GOV AUTHORITIES. ASKED IF HE WAS NOT WORRIED THAT THE GOV MIGHT DECIDE TO MAKE PHILLIPS PETROLEUM RESPONSIBLE FOR THE DEBT, HORTON REPLIED THAT HE HAD BEEN ADVISED BY THE COMPANY'S LEGAL COUNSEL THAT PHILLIPS IS PROTECTED BY ARTICLE 12 OF THE REVERSION LAW, WHICH MAKES ALL FIRMS PARTICIPATING IN CONCESSIONS INDIVIDUALLY SUBJECT TO THE PROVISIONS OF THE LAW.

9. THE PETROLEUM ATTACHE CHECKED SEPARATELY WITH MENE GRANDE PETROLEUM CO PRESIDENT, BERNARDO DIAZ, TO CONFIRM THAT EL PASO-VENEZUELA DOES, IN FACT, HAVE A ROYALTY INTEREST IN THE MENE GRANDE CONCESSIONS. DIAZ REPLIED THAT THE MATTER HAD COME TO HIS ATTENTION SEVERAL DAYS AGO WHEN HE RECEIVED A TELEPHONE CALL FROM JAMES BRANDON, INFORMING HIM THAT BRANDON WAS PLANNING TO BRING SUIT AGAINST MENE GRANDE CONTESTING THE BASIS OF ROYALTY PAYMENTS. DIAZ SAID THAT HE UNDERSTOOD BRANDON WAS ACTING ON BEHALF OF KIRBY ROYALTIES CO. DIAZ REFERRED BRANDON TO THE COMPANY'S ATTORNEY IN CORAL GABLES, FLORIDA.

10. COMMENT: THIS HAS ALL THE ASPECTS OF A MESSY SITUATION. HYDROCARBONS DIRECTOR REYES COMMENTED THAT HE MAY BE FORCED TO TAKE "DRASTIC" ACTION, BUT HE WAS CLEARLY AT A LOSS AS TO WHAT THE  
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ACTION MIGHT BE. THE PETROLEUM ATTACHE PROMISED ONLY TO TRY TO OBTAIN A CLEAR PICTURE OF THE CASE, AND TO BRING IT TO THE ATTENTION OF THE AMBASSADOR. THE EMBASSY HAS NO INFO ON EL PASO-VENEZUELAN OTHER THAN THE BRIEF FINANCE MINISTRY REPORT SUPPLIED BY REYES AND THE LIST OF TEN FIRMS OR CONSORTIUMS PARTICIPATING IN BLOCKS 10, 17 AND 9, SUPPLIED BY PHILLIPS PETROLEUM. SHLAUDEMANN

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